



## National Thermal Power Corporation

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,544	NTPC IN
	REUTERS CODE
S&P CNX: 4,296	NTPC.BO

31 May 2007

Neutral

Previous Recommendation: Neutral

Rs158

Equity Shares (m)	8,245.5
52-Week Range	167/91
1,6,10 Rel. Perf. (%)	-4/2/1
M.Cap. (Rs b)	1,306.1
M.Cap. (US\$ b)	32.1

YEAR	NET SALES	PAT *	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END *	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	326,317	65,681	8.0	23.6	19.9	2.7	13.9	17.6	4.2	12.6
03/08E	352,517	74,291	9.0	13.8	17.6	2.4	14.5	17.6	3.7	10.6
03/09E	403,277	80,504	9.8	8.4	16.2	2.2	14.4	18.1	0.3	10.4

\* Pre Exceptional Earnings

**4QFY07 pre exceptional net profit up 18% YoY:** During 4QFY07, NTPC reported revenue of Rs88.6b (up 21.6% YoY), EBITDA of Rs23.4b (up 33.1% YoY) and net profit of Rs17.4b (up 10.8% YoY). There were several one-time income/expenses during the quarter which includes (1) Prior period arrears Rs2,613m, (2) Foreign exchange gain Rs285m, (3) Wage revision Rs3,243m and (4) exceptional items Rs915m. Adjusted net profit stood at Rs18.5 (up 18.4% YoY), largely in line with our expectation of Rs19.1b.

**Higher generation driven by improved PLF of Gas station:** Electricity generation stood at 51.7BUs (up 11.5% YoY) during 4QFY07 and 188.8BUs during FY07 (10.5% YoY). Gas based power plants recorded PLFs of 72% during FY07 (vs 65.8% in FY06), while PLF during 4QFY07 stood at 83.5%. Coal based PLF for FY07 stood at 90.1%, vs 89.9% YoY (4QFY07 PLF at 96.11%).

**Eleventh Plan capacity addition:** Power capacity as at May 2007 stood at 27,904MW, up from 27,404MW in March 07. During FY07, NTPC commissioned 3,155MW of power capacity (vs targeted capacity addition of 3,710 MW). Total capacity addition during Tenth plan stood at 7,155 MW. For Eleventh Plan, the company plans to add 21,941 MW and of this, capacity under construction stands at 10,860MW.

**Valuation and recommendation:** We estimate NTPC to report a net profit of Rs74.3b in FY08 (up 13.8% YoY) and Rs80.5b in FY09 (up 8.4% YoY). At the CMP of Rs158/sh, NTPC trades at PER of 19.9x FY07, 17.6x FY08E and 16.2x FY09E (reported pre-exceptional earnings). Maintain **Neutral**.

### QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY06				FY07				FY06	FY07
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Sales</b>	<b>60,567</b>	<b>59,259</b>	<b>68,689</b>	<b>72,914</b>	<b>71,536</b>	<b>68,138</b>	<b>81,468</b>	<b>88,603</b>	<b>261,429</b>	<b>326,317</b>
Change (%)	16.7	12.9	20.5	13.5	18.1	15.0	18.6	21.5	15.9	24.8
<b>EBITDA</b>	<b>15,426</b>	<b>12,977</b>	<b>18,199</b>	<b>17,583</b>	<b>19,960</b>	<b>18,408</b>	<b>22,595</b>	<b>23,397</b>	<b>64,185</b>	<b>100,932</b>
Change (%)	16.2	-6.0	15.7	-1.8	29.4	41.9	24.2	33.1	5.8	57.3
As of % Sales	25.5	21.9	26.5	24.1	27.9	27.0	27.7	26.4	24.6	30.9
Depreciation	4,873	5,280	5,063	5,261	4,755	4,780	5,138	6,081	20,477	20,754
Interest	2,357	1,545	2,829	2,854	5,238	4,630	2,807	5,919	9,585	18,594
Other Income	5,528	6,315	8,026	6,232	6,369	6,505	7,752	6,864	26,101	27,490
<b>PBT</b>	<b>13,724</b>	<b>12,467</b>	<b>18,333</b>	<b>15,700</b>	<b>16,336</b>	<b>15,503</b>	<b>22,402</b>	<b>18,261</b>	<b>60,224</b>	<b>89,074</b>
Tax	637	832	516	37	808	764	1,369	914	2,022	20,427
Effective Tax Rate (%)	4.6	6.7	2.8	0.2	4.9	4.9	6.1	5.0	3.4	22.9
<b>Reported PAT</b>	<b>13,087</b>	<b>11,635</b>	<b>17,817</b>	<b>15,663</b>	<b>15,528</b>	<b>14,739</b>	<b>21,033</b>	<b>17,347</b>	<b>58,202</b>	<b>68,647</b>
<b>Adjusted PAT (Pre Exceptional)</b>	<b>12,214</b>	<b>11,544</b>	<b>12,672</b>	<b>15,653</b>	<b>15,318</b>	<b>14,410</b>	<b>17,415</b>	<b>18,539</b>	<b>53,149</b>	<b>65,681</b>
Change (%)	9.1	12.3	15.5	16.8	25.4	24.8	37.4	18.4	16.0	23.6

#### 4QFY07: pre exceptional net profit up 18%YoY

During 4QFY07, NTPC reported revenue of Rs88.6b (up 21.6% Yo), EBIDTA of Rs23.4b (up 33.1% YoY) and net profit of Rs17.4b (up 10.8% YoY). There were several one-time income/expenses during the quarter which includes 1) Prior period arrears Rs2,613m, 2) Foreign exchange gain Rs285m, 3) Wage revision Rs3,243m and 4) exceptional items Rs915m. Adjusted net profit stood at Rs18.5 (up 18.4% YoY), largely in line with our expectation of Rs19.1b. During FY07, revenues stood at Rs326b (up 24.8% YoY) and net profit at Rs68.6b (up 29.2% YoY). Reported net profit at Rs68.6b is marginally higher than the provisional numbers of Rs67.3b.

#### Higher generation driven by improved PLF of Gas station

Electricity generation stood at 51.7BUs (up 11.5% YoY) during 4QFY07 and 188.8BUs during FY07 (10.5% YoY). During 4QFY07, sale of electricity stood at 48.6BUs (up 9.9% YoY) and during FY07 at 176.5BUs for FY07 (11.0% YoY). Gas based power plants recorded PLFs of 72% during FY07 (vs 65.8% in FY06), while PLF during 4QFY07 stood at 83.5%. Coal based PLF for FY07 stood at 90.1%, vs 89.9% YoY (4QFY07 PLF at 96.11%). Key reason for improved PLF factor for gas based stations is increased gas availability (12.7 mmscmd in FY07 vs 10.9 in FY06) due to imports and spot market purchases.

#### OPERATIONAL PERFORMANCE

	4QFY07	4QFY06	% YOY	FY07	FY06	% YOY
<b>Electricity (MUs)</b>						
Sales	48,640	44,269	9.9	176,500	159,000	11.0
Generation	51,660	46,323	11.5	188,800	170,880	10.5
Capacity (MW)	27,904	23,935	16.6	27,904	23,935	16.6
Avg Selling Price (Rs/kwh)	1.82	1.65	10.6	1.85	1.64	12.4
<b>PLF (%)</b>						
Coal Based	96.1	95.7		90.0	87.5	
Gas Based	83.5	65.8		70.9	65.8	

Source: Company

#### Tenth plan capacity addition at 7,155 MW

NTPC commissioned 7,155MW of capacity in the Tenth plan (FY02-FY07). There has been a slippage of 1,500MW, due to delay in commissioning of 1,000 MW Kahalgaon and 1,000 MW Sipat project. However, the company installed 500 MW of Vindhyaachal unit in FY07, resulting in slippage of 1,500 MW. The installed capacity for the company as of March 2007 stood at 27,404 MW.

#### Eleventh Plan capacity addition: 10,860MW under construction

Power capacity as at May 2007 stood at 27,904MW, up from 27,404MW in March 2007. During FY07, NTPC commissioned 3,155MW of power capacity (vs targeted capacity addition of 3,710 MW). Total capacity addition during Tenth plan stood at 7,155 MW. For Eleventh Plan, the company plans to add 21,941 MW and of this, capacity under construction stands at 10,860MW.

The management has indicated that expected capacity addition during FY08 stands at 2,500MW (Kahalgaon 1,000 MW, Sipat 1,000 MW and Bhillai JV 500 MW) During FY09, capacity addition is expected at 2,580MW (Sipat 1,320 MW, Barh 660 MW and Koldam hydro power 600 MW).

#### Coal mining: Progress as per schedule, Lack of clarity on returns remain

NTPC has been allotted eight coal blocks with aggregate reserves of 5.6b ton. Production from Pakri Barwadih mine is expected to commence from FY08 onwards. The management indicated that during FY07, capex of Rs491m has been incurred on mining operations. The company is in the final stages of appointing a mine operator for the Pakri Barwadih mine. The commercial production would start from FY08 onwards and the total production from all its mines is expected to reach 50mtpa by 2017. The production from Pakri Barwadih mine would be 15 mtpa and total capex for the mining would be Rs5.43b.

**NTPC has been recovering 100% of its dues**

As at March 2007, all the SEBs had opened and maintained Letters of Credit (LoC) equal to or more than 105% of average monthly billing as per One-Time Settlement Scheme. NTPC has been recovering 100% of its dues, for the fifth year in a row. The company revised the terms of incentive at 1.5% of the outstanding OTSS bond amount to SEBs for prompt payment. Also, several SEBs have exercised the call option and have redeemed bonds to the extent of Rs6.8b. As at March 2007, outstanding OTSS bond stands at Rs147.8b.

**Valuation and recommendation**

We estimate NTPC to report net profit of Rs74.3b in FY08 (up 13.8% YoY) and Rs80.5b in FY09 (up 8.4% YoY). At the CMP of Rs158/sh, NTPC trades at PER of 19.9x FY07, 17.6x FY08E and 16.2x FY09E (reported pre-exceptional earnings). Adjusted for the excess depreciation in accounts as compared to Tariff Order and rebate on OTSS bonds, it trades at a PER of 19.4x FY07E, 16.7x FY08E and 15.5x FY09. Maintain **Neutral**.

## National Thermal Power Corporation: an investment profile

### Company description

NTPC is the largest power generator in India with installed capacity of 27,904MW, generating ~28% of the electricity in the country. Its cost of power at Rs1.52 per unit is amongst the lowest. It aims to reach a capacity of 50,000 MW by the end of FY12. It also intends to venture into related areas like coal mining, distribution, transmission, merchant sales, gas exploration, etc.

### Key investment arguments

- ✍ Outlined expansion projects during Xth and XIth Plan represents 24% of country's planned generation capacity addition.
- ✍ Enjoys significant growth option across entire spectrum: transmission, distribution, coal mining, merchant power plants, gas exploration, etc.
- ✍ Efficiency incentives results in ROE from core business at 21% vs 14% permitted by CERC.
- ✍ Growth will not be equity dilutive

### Key investment risks

- ✍ Tightening of efficiency norms may reduce quantum of incentives
- ✍ Slowdown in the pace of reforms would impact growth plans

### Recent developments

- ✍ NTPC has altered its Memorandum of Understanding (MoU) to venture into Nuclear Power Generation.
- ✍ News flow on diversification efforts like distribution, transmission, coal mining, international foray, merchant sales, etc continue to be positive.

### Valuation and view

- ✍ At the CMP of Rs158/sh, NTPC trades at PER of 19.9x FY07, 17.6x FY08E and 16.2x FY09E (reported pre-exceptional earnings).
- ✍ Maintain **Neutral**.

### Sector view

We believe that the Indian power sector is interestingly poised, offering significant growth potential. Incumbents, especially the CPSUs and private players, enjoy growth optionality, which could be in multiples of the current size. While COSU's like NTPC and Neyveli Lignite have embarked on a capex programme to double existing capacity by FY12, private players have also announced large projects.

#### COMPARATIVE VALUATIONS

		NTPC	REL	TATA POWER
P/E (x)	FY08E	17.6	15.6	18.6
	FY09E	16.2	14.2	18.3
P/BV (x)	FY08E	2.4	1.4	2.0
	FY09E	2.2	1.3	1.9
RoE (%)	FY08E	14.5	9.3	8.6
	FY09E	14.4	9.3	8.5

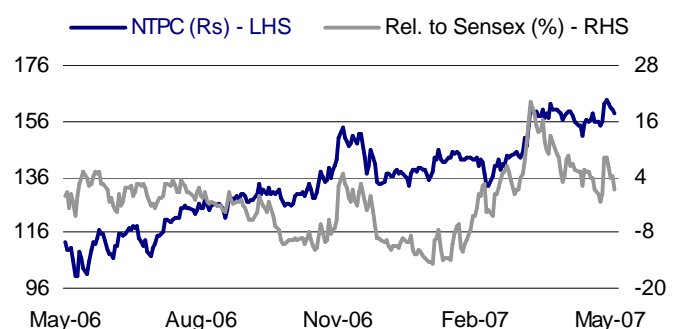
#### SHAREHOLDING PATTERN (%)

	MAR.07	DEC.06	MAR.06
Promoter	89.5	89.5	89.5
Domestic Inst	1.3	1.4	1.0
Foreign	7.1	6.8	7.1
Others	2.1	2.3	2.4

#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	9.0	9.2	-1.9
FY09	9.8	10.4	-5.9

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Net Sales</b>	<b>225,650</b>	<b>261,429</b>	<b>326,317</b>	<b>352,517</b>	<b>403,277</b>
Change (%)	19.6	15.9	24.8	8.0	14.4
<b>EBITDA</b>	<b>67,484</b>	<b>72,232</b>	<b>100,932</b>	<b>105,091</b>	<b>116,311</b>
Margin (%)	29.9	27.6	30.9	29.8	28.8
Depreciation	19,584	20,477	20,754	29,167	29,412
<b>EBIT</b>	<b>47,900</b>	<b>51,755</b>	<b>80,178</b>	<b>75,923</b>	<b>86,899</b>
Int. and Finance Charges	16,955	17,632	18,594	24,511	29,189
Other Income - Rec.	17,597	26,101	27,490	28,197	28,783
<b>Profit before Tax</b>	<b>48,542</b>	<b>60,224</b>	<b>89,074</b>	<b>79,609</b>	<b>86,493</b>
Current Tax	2,712	2,022	20,427	5,318	5,990
Deferred Tax	0	0	0	0	0
Tax Rate (%)	5.6	3.4	22.9	6.7	6.9
<b>Adjusted PAT</b>	<b>45,830</b>	<b>58,202</b>	<b>65,681</b>	<b>74,291</b>	<b>80,504</b>
EO Expense/(Income)	-12,224	0	-2,966	0	0
<b>Reported PAT</b>	<b>58,053</b>	<b>58,202</b>	<b>68,647</b>	<b>74,291</b>	<b>80,504</b>
Change (%)	10.4	0.3	17.9	8.2	8.4
Margin (%)	25.7	22.3	21.0	21.1	20.0
Less: Minority Interest	0	0	0	0	0
<b>Net Profit</b>	<b>58,053</b>	<b>58,202</b>	<b>68,647</b>	<b>74,291</b>	<b>80,504</b>

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Equity Share Capital	82,455	82,455	82,455	82,455	82,455
Total Reserves	335,308	367,132	407,481	451,309	501,351
<b>Net Worth</b>	<b>417,763</b>	<b>449,587</b>	<b>489,936</b>	<b>533,764</b>	<b>583,806</b>
Deferred liabilities	1	1	1	1	1
Total Loans	174,252	206,381	276,613	318,280	420,961
<b>Capital Employed</b>	<b>592,016</b>	<b>655,969</b>	<b>766,550</b>	<b>852,046</b>	<b>1,004,768</b>
Gross Block	431,062	460,396	658,362	668,892	834,916
Less: Accum. Deprn.	207,914	229,501	249,758	278,926	308,337
<b>Net Fixed Assets</b>	<b>223,148</b>	<b>230,895</b>	<b>408,604</b>	<b>389,966</b>	<b>526,579</b>
Capital WIP	99,285	136,340	77,944	175,318	212,347
Investments	207,977	192,891	223,666	228,218	244,268
<b>Curr. Assets</b>	<b>129,073</b>	<b>157,245</b>	<b>165,413</b>	<b>162,620</b>	<b>158,937</b>
Inventory	17,777	23,405	26,145	29,940	33,146
Account Receivables	13,747	8,678	12,255	17,384	22,097
Cash and Bank Balance	60,783	84,714	95,193	79,516	67,486
Others	36,766	40,448	31,820	35,779	36,207
<b>Curr. Liability &amp; Prov</b>	<b>67,467</b>	<b>61,402</b>	<b>109,077</b>	<b>104,076</b>	<b>137,363</b>
Account Payables	52,306	49,102	75,510	68,355	101,379
Provisions	15,161	12,300	33,567	35,721	35,984
<b>Net Current Assets</b>	<b>61,606</b>	<b>95,843</b>	<b>56,336</b>	<b>58,544</b>	<b>21,574</b>
<b>Appl. of Funds</b>	<b>592,016</b>	<b>655,969</b>	<b>766,550</b>	<b>852,045</b>	<b>1,004,768</b>

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Basic (Rs)</b>					
<b>EPS (Pre Excep)</b>	<b>5.6</b>	<b>7.1</b>	<b>8.0</b>	<b>9.0</b>	<b>9.8</b>
Cash EPS	9.4	9.5	10.8	12.5	13.3
BV/Share	50.7	54.5	59.4	64.7	70.8
DPS	2.4	2.8	3.0	3.2	3.2
Payout (%)	49.0	44.9	43.5	41.0	37.8
<b>Valuation (x)</b>					
P/E		22.4	19.9	17.6	16.2
Cash P/E		16.6	14.6	12.6	11.9
P/BV		2.9	2.7	2.4	2.2
EV/Sales		4.7	3.9	3.7	3.5
EV/EBITDA		14.1	12.6	10.6	10.4
Dividend Yield (%)		18	19	2.0	2.0
<b>Return Ratios (%)</b>					
EBITDA Margins (%)	29.9	27.6	30.9	29.8	28.8
Net Profit Margins (%)	25.7	22.3	21.0	21.1	20.0
RoE	11.9	12.3	13.9	14.5	14.4
RoCE	18.1	16.8	17.6	17.6	18.1
<b>Working Capital Ratios</b>					
Fixed Asset Turnover (x)	0.5	0.6	0.5	0.5	0.5
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.4
Debtor (Days)	22	12	14	18	20
Inventory (Days)	29	33	29	31	30
Working Capital Turnove	1	16	-43	-22	-42
<b>Leverage Ratio (x)</b>					
Current Ratio	1.9	2.6	1.5	1.6	1.2
Interest Cover Ratio	2.8	2.9	4.3	3.1	3.0
Debt/Equity	0.4	0.5	0.6	0.6	0.7

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Oper. Profit/(Loss) before	80,349	80,701	93,393	108,777	115,905
Direct Taxes Paid	-2,712	-2,022	-4,229	-5,318	-5,990
(Inc)/Dec in WC	47,613	-10,306	49,985	-17,884	24,939
<b>CF from Operations</b>	<b>125,250</b>	<b>68,373</b>	<b>139,150</b>	<b>85,575</b>	<b>134,855</b>
EO Expense	0	0	0	0	0
<b>CF from Operating in</b>	<b>125,250</b>	<b>68,373</b>	<b>139,150</b>	<b>85,575</b>	<b>134,855</b>
(inc)/dec in FA	-55,113	-66,389	-139,570	-107,904	-203,054
(Pur)/Sale of Investment	-34,597	15,086	-30,775	-4,552	-16,050
<b>CF from Investment</b>	<b>-89,710</b>	<b>-51,303</b>	<b>-170,345</b>	<b>-112,456</b>	<b>-219,104</b>
Issue of Shares	26,841	0	0	0	0
(Inc)/Dec in Debt	14,349	32,129	70,232	41,667	102,681
Dividend Paid	-22,470	-26,158	-28,558	-30,462	-30,462
<b>CF from Fin. Activit</b>	<b>18,720</b>	<b>5,971</b>	<b>41,674</b>	<b>11,205</b>	<b>72,219</b>
<b>Inc/Dec of Cash</b>	<b>54,260</b>	<b>23,041</b>	<b>10,479</b>	<b>-15,676</b>	<b>-12,030</b>
Add: Beginning Balance	6,091	60,783	84,714	95,193	79,516
<b>Closing Balance</b>	<b>60,351</b>	<b>83,824</b>	<b>95,193</b>	<b>79,516</b>	<b>67,486</b>



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2. Group/Directors ownership of the stock
3. Broking relationship with company covered
4. Investment Banking relationship with company covered

**NTPC**

No  
No  
No  
No

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